

Internal Revenue Service  
District Director

Department of the Treasury

Person to Contact:

Telephone Number:

Refer Reply to:

EIN:

Date: MAY 29 1991

Dear Sir or Madam:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code of 1986.

Your primary activities are to promote and operate the [REDACTED] and to award scholarships to the contestants of that pageant.

The information submitted discloses that your Trust Agreement was created on [REDACTED], with the stated purpose of:

"...the promotion and extension of the Pageant to:

1. Assist the cultural and economic growth of the City of [REDACTED].
2. Provide a forum for highly qualified young women to compete for non-forfeitable academic and career scholarships.
3. To select a contestant to represent the City of [REDACTED] at the [REDACTED] Pageant.

Your criteria used in selecting the recipients to receive your scholarship is be determined by [REDACTED] Judges who make their selection based on the talent, swimsuit appearance, interview and evening gown appearance of the participants. The value of the scholarship benefit is based on position of finish in the [REDACTED] Pageant.

Section 501(c) of the Code describes certain organizations exempt from income tax under section 501(a) and reads, in part, as follows:

"(3) Corporations, and any community chest, fund, or foundation organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation, (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements) any political campaign on behalf of (or in opposition to) any candidate for public office."

The Income Tax Regulations applicable to section 501(c)(3) of the Code provide that an organization must be both organized and operated exclusively for one or more of the purposes specified in that section. If it fails to meet either the organizational or the operational test, it is not within the purview of the statutes.

Miss Georgia Scholarship Fund Inc. v. Commissioner 72 Tax Court 267 (1979) provides that an organization whose only activity was awarding scholarships to contestants in a beauty pageant did not qualify for exemption under section 501(c)(3) of the Internal Revenue Code. All contestants, as a condition of receiving a scholarship, were required to sign a contract that obligated them to abide by pageant rules if selected to participate in the Miss America Pageant. The Court concluded that the scholarships did not qualify for exemption under section 501(c)(3) of the Internal Revenue Code because they were awarded in consideration of contractual obligations.

[REDACTED]

The information presented in your application states that your purpose and activities are to organize and to produce the [REDACTED] [REDACTED] and award scholarships to your contestants based on the position of finish in your [REDACTED] Pageant. Your purposes and activities are similar to the organization cited in the above court case.

You are not exempt merely because your operations are not conducted for the purpose of producing profit. To satisfy the "operational test" under section 501(c)(3) of the Code, your resources must be devoted to the purposes that qualify as exclusively charitable, educational or religious within the meaning of section 501(c)(3) and applicable regulations. You do not meet the "organizational test" and the "operational test" under section 1.501(c)(3)-1 of the Income Tax Regulations.

Therefore, we have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(3) of the Code.

You agreed to this determination by signing Form 6018, Consent to Proposed Adverse Action, on [REDACTED].

You are required to file Federal income tax returns annually with your district director.

Contributions to you are not deductible under section 170 of the Code.

As provided by section 6104(c) of the Code and the applicable regulations, the appropriate State officials are being notified of our determination.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely yours,

[REDACTED]

District Director